

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Maynard
Contributory Retirement System
For the Four Year Period
January 1, 2000 - December 31, 2003
PERAC 03: 10-057-23**

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March 22, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Maynard** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **2000** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

I would like to point out, however, an “Administrative Observation”, which can be found on Page 5 of this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and expresses appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Maynard Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

1. Fifth Board Member

The Board has been without a fifth member since the previous member died in 2000. According to G.L. c. 32 §20(4)(b), if the fifth member is not chosen by the other four members within 30 days of expiration of term, the Board of Selectmen will appoint a fifth member.

Recommendation:

If the Board cannot choose a fifth member immediately, the Board of Selectmen must appoint one.

Board Response:

On May 27, 2004, Russell Salamone was appointed as the fifth member.

2. Affidavits

The Retirement Board is not requiring members and beneficiaries who receive a pension, retirement allowance, or survivor allowance to file affidavits annually. PERAC Regulation 840 CMR 15.01 requires that affidavits be filed annually under penalties of perjury. This was also a finding in the last audit report.

Recommendation:

The Retirement System must require members and beneficiaries to annually file affidavits containing the following information:

- a) Name of member or beneficiary;
- b) Address of member or beneficiary;
- c) Statement certifying member or beneficiary is currently living;
- d) Statement describing beneficiary's current marital status where beneficiary's marital status is relevant to continued receipt of benefits;
- e) Statement describing beneficiary's current dependency status where dependency is relevant to continued receipt of benefits; and
- f) Additional information as the Board may require to determine whether the member or beneficiary is entitled to continued receipt of benefits.

In addition, the Board must withhold retirement benefits from those individuals who do not file the affidavit within a prescribed period of time established by the Board. The regulation also requires the Board to randomly audit 5% of the affidavits filed.

Board Response:

Affidavits were mailed to all members and beneficiaries on July 28, 2004 and this will be done annually.

Maynard Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

3. Retirement Software Package

The Retirement Board is using a manual accounting system and also maintaining membership records manually. They have also purchased and pay annual maintenance fees for a retirement software package. Minimal data is entered into the automated system solely for the purpose of printing a Trial Balance. Maintaining retirement accounting and membership records manually is time consuming and prone to error.

Recommendation:

The Board should eliminate the manual systems immediately and fully utilize the retirement software systems.

Board Response:

The Board agrees and will implement as soon as possible.

4. Membership Review

The membership review revealed the following errors:

- a) Member had an incorrect contribution rate when he was given an erroneous membership date as a result of a buyback. The member purchased call firefighter time and was erroneously given the date he became a call firefighter as a membership date for rate purposes. Contribution rates must be based on date of membership and not date of employment. The contribution rate was 5% and should have been 7% plus the additional 2% over \$30,000. PERAC Memo #29/1997 details the legal basis for contribution rate requirements.
- b) Upon commencing employment with the Maynard Retirement System, the Board Administrator assigned himself an incorrect contribution rate. The contribution rate was 5% and should have been 8% plus the additional 2% over \$30,000. Prior to joining the Maynard Retirement system, the Board Administrator resigned from the Beverly Retirement System and received a refund of his contributions. He then incorrectly used his original membership date for rate purposes rather than the date he became a member of the Maynard Retirement System. PERAC Memo #29/1997 details the legal basis for contribution rate requirements. The Administrator is currently retired.
- c) Members' military service buyback amount was calculated incorrectly. The member withdrew from the retirement system and took a refund of his total accumulated deductions. The buyback amount was erroneously calculated using his original starting salary instead of the salary when he rejoined the system. This member is currently retired. PERAC Memo #52/1998 explains the correct salary to be used when calculating military service buybacks.

Maynard Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

The Board is obligated to collect all funds due the retirement system.

- a) Board must require member to pay additional contributions of \$13,625 and correct the current contribution rate. If appropriate amount is not paid, additional contributions must be deducted until funds are fully recovered.
- b) Board must require Administrator to pay additional contributions of \$30,451. If the appropriate amount is not paid, the annuity portion of the retirement allowance must be reduced pursuant to the formula outlined in *Vatalaro v. State Retirement Board*, CR 9962 until funds are fully recovered.
- c) Board must require member to pay additional buyback of \$8,671. If appropriate amount is not paid, creditable service must be adjusted and pension recalculated.

Board Response:

- a) The contribution rate was corrected on April 28, 2004 and the Board will request that the member pay the additional contributions.
- b) The Board will request that the Administrator pay the additional contributions or reduce the annuity portion until the funds are recovered.
- c) The Board will require that the member pay the additional buyback and if not paid, the Board will adjust creditable service and recalculate the pension.

5. Regular Compensation

During the retiree review it was discovered that payment for unused vacation was being classified as regular compensation. PERAC Regulation 840 CMR 15.03 (2)(d) specifically states that this is not regular compensation. This affected members when they retired, overstating their three-year average and therefore their retirement allowance. The Board Administrator is among the affected retirees.

Recommendation:

The Board must identify all affected individuals and; 1) refund deductions taken on subject earnings 2) recalculate retirement allowance and 3) request reimbursement of pension overpayments.

Board Response:

The Board will identify all affected individuals and take corrective action.

Maynard Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

6. Meetings Minutes

Board members present at the meeting are not signing minutes of the Retirement Board meetings. In many cases the minutes are not signed by any members.

Recommendation:

Board members present at the Board meetings must sign the minutes attesting to their accuracy.

Board Response:

The Board has signed all minutes and will continue to sign them on a monthly basis.

Administrative Observation

In the course of the audit of the Maynard Retirement System for the period 2000 – 2003, a review of the financial records showed that the Retirement Board was paying the Town Accountant a \$12,000 salary for 2000 and 2001 and \$15,000 for 2002. It was then determined that this was for the administration of the retirement system. Under the structure of the Town of Maynard and the Maynard Retirement System, the Town Accountant is responsible for the active administration of the retirement system. As such, according to statute, the Retirement Board is authorized to pay a maximum of \$3,000 to the Town Accountant for the active administration of the retirement system. The Town Accountant was essentially being paid by the Town and Retirement Board for doing the same job and the additional salary appeared inappropriate.

A further review revealed that the Board, at their April 1999 board meeting created an Executive Director position. The Town Accountant (Ex Officio member) made the motion to create this position and also made the motion to fund the position in the amount of \$12,000 retroactive to January 1999. He also participated when the Board voted unanimously to approve these motions. The Board then voted to appoint the Town Accountant to this position. The Town Accountant did not make this motion and abstained from the vote.

The involvement of the Town Accountant in creating and funding a position he knew he would ultimately fill and the lack of a proper search by the Board for other candidates, is at minimum, a poor business practice and inappropriate.

Final Determination:

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Maynard Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2003	2002	2001	2000
Cash	\$403,205	\$78,859	\$640,876	\$235,527
Short Term Investments	274,047	625,798	309,242	461,732
Fixed Income Securities (at book value)	8,382,555	8,139,691	6,842,108	6,286,264
Equities	8,251,875	5,484,522	6,499,597	7,213,167
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	0	0	0	0
Pooled International Equity Funds	0	0	0	0
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	0	0	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	116,736	110,326	111,030	98,891
Accounts Receivable	0	0	0	0
Accounts Payable	0	0	0	0
TOTAL	<u>\$17,428,418</u>	<u>\$14,439,196</u>	<u>\$14,402,852</u>	<u>\$14,295,580</u>
FUND BALANCES				
Annuity Savings Fund	\$4,716,776	\$4,459,425	\$4,189,039	\$4,116,406
Annuity Reserve Fund	1,381,121	1,317,274	1,243,104	1,042,600
Pension Fund	1,739,859	1,762,998	1,719,439	1,787,185
Military Service Fund	9,327	582	574	563
Expense Fund	0	0	0	0
Pension Reserve Fund	9,581,335	6,898,918	7,250,697	7,348,827
TOTAL	<u>\$17,428,418</u>	<u>\$14,439,196</u>	<u>\$14,402,852</u>	<u>\$14,295,580</u>

Maynard Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$3,635,458	\$1,087,516	\$1,911,135	\$551	\$0	\$6,640,098	\$13,274,759
Receipts	557,302	31,267	859,731	11	80,379	709,094	2,237,784
Interfund Transfers	(42,955)	42,955	0	0	0	0	0
Disbursements	<u>(33,766)</u>	<u>(119,138)</u>	<u>(983,681)</u>	<u>0</u>	<u>(80,379)</u>	<u>0</u>	<u>(1,216,963)</u>
Ending Balance (2000)	4,116,040	1,042,600	1,787,185	563	0	7,349,192	14,295,579
Receipts	558,997	32,484	949,253	11	79,092	(98,130)	1,521,706
Interfund Transfers	(332,251)	332,251	0	0	0	0	0
Disbursements	<u>(154,112)</u>	<u>(164,230)</u>	<u>(1,016,999)</u>	<u>0</u>	<u>(79,092)</u>	<u>0</u>	<u>(1,414,434)</u>
Ending Balance (2001)	4,188,674	1,243,104	1,719,439	573	0	7,251,062	14,402,852
Receipts	571,148	35,656	1,130,102	8	86,965	(351,778)	1,472,100
Interfund Transfers	(170,130)	170,130	0	0	0	0	0
Disbursements	<u>(130,632)</u>	<u>(131,617)</u>	<u>(1,086,543)</u>	<u>0</u>	<u>(86,965)</u>	<u>0</u>	<u>(1,435,756)</u>
Ending Balance (2002)	4,459,059	1,317,274	1,762,998	581	0	6,899,283	14,439,195
Receipts	599,133	40,088	1,168,090	8,745	104,261	2,682,416	4,602,734
Interfund Transfers	(173,557)	173,557	0	0	0	0	0
Disbursements	<u>(168,225)</u>	<u>(149,798)</u>	<u>(1,191,228)</u>	<u>0</u>	<u>(104,261)</u>	<u>0</u>	<u>(1,613,513)</u>
Ending Balance (2003)	<u>\$4,716,409</u>	<u>\$1,381,121</u>	<u>\$1,739,859</u>	<u>\$9,326</u>	<u>\$0</u>	<u>\$9,581,700</u>	<u>\$17,428,416</u>

Maynard Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
	2003	2002	2001	2000
Annuity Savings Fund:				
Members Deductions	\$521,254	\$501,929	\$476,431	\$443,123
Transfers from other Systems	17,536	8,875	0	38,568
Member Make Up Payments and Redeposits	18,645	3,693	5,299	3,846
Investment Income Credited to Member Accounts	41,697	56,651	77,266	71,765
Sub Total	<u>599,133</u>	<u>571,148</u>	<u>558,997</u>	<u>557,302</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>40,088</u>	<u>35,656</u>	<u>32,484</u>	<u>31,267</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	56,606	56,606	45,750	35,713
Received from Commonwealth for COLA and Survivor Benefits	65,979	63,473	68,801	74,158
Pension Fund Appropriation	1,045,505	1,010,023	834,703	749,860
Sub Total	<u>1,168,090</u>	<u>1,130,102</u>	<u>949,253</u>	<u>859,731</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	8,739	0	0	0
Investment Income Credited Military Service Fund	6	8	11	11
Sub Total	<u>8,745</u>	<u>8</u>	<u>11</u>	<u>11</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	104,261	86,965	79,092	80,379
Sub Total	<u>104,261</u>	<u>86,965</u>	<u>79,092</u>	<u>80,379</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	10,934	11,831	7,524	2,925
Pension Reserve Appropriation	77,867	67,860	191,374	227,036
Interest Not Refunded	1,279	1,614	1,825	686
Excess Investment Income	2,592,336	(433,083)	(298,853)	478,447
Sub Total	<u>2,682,416</u>	<u>(351,778)</u>	<u>(98,130)</u>	<u>709,094</u>
TOTAL RECEIPTS	<u>\$4,602,734</u>	<u>\$1,472,100</u>	<u>\$1,521,706</u>	<u>\$2,237,784</u>

Maynard Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2003	2002	2001	2000
Refunds to Members	\$54,495	\$73,131	\$80,822	\$16,496
Transfers to other Systems	<u>113,730</u>	<u>57,502</u>	<u>73,290</u>	<u>17,270</u>
Sub Total	<u>168,225</u>	<u>130,632</u>	<u>154,112</u>	<u>33,766</u>
Annuity Reserve Fund:				
Annuities Paid	149,798	131,617	123,502	115,336
Option B Refunds	<u>0</u>	<u>0</u>	<u>40,728</u>	<u>3,802</u>
Sub Total	<u>149,798</u>	<u>131,617</u>	<u>164,230</u>	<u>119,138</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	855,697	761,276	706,073	663,385
Survivorship Payments	37,923	36,951	35,709	38,286
Ordinary Disability Payments	68,797	67,108	66,217	42,601
Accidental Disability Payments	148,562	146,402	145,288	200,207
Accidental Death Payments	38,277	37,557	35,791	13,591
Section 101 Benefits	0	0	1,674	6,691
3 (8) (c) Reimbursements to Other Systems	41,973	37,249	26,249	18,919
Sub Total	<u>1,191,228</u>	<u>1,086,543</u>	<u>1,016,999</u>	<u>983,681</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	3,000	2,500	3,000	3,000
Salaries	33,000	20,250	15,000	15,000
Legal Expenses	0	0	0	0
Medical Expenses	0	0	0	0
Travel Expenses	1,868	1,749	2,356	2,867
Administrative Expenses	5,910	6,676	5,370	8,884
Furniture and Equipment	0	0	0	0
Management Fees	45,490	42,434	41,485	39,266
Custodial Fees	14,993	13,356	11,881	11,362
Consultant Fees	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>104,261</u>	<u>86,965</u>	<u>79,092</u>	<u>80,379</u>
TOTAL DISBURSEMENTS	<u>\$1,613,513</u>	<u>\$1,435,756</u>	<u>\$1,414,434</u>	<u>\$1,216,963</u>

Maynard Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Investment Income Received From:				
Cash	\$2,643	\$5,676	\$14,225	\$26,946
Short Term Investments	0	0	0	0
Fixed Income	458,884	492,916	405,656	385,924
Equities	39,146	45,768	44,719	45,636
Pooled or Mutual Funds	2	0	0	0
Commission Recapture	0	0	0	0
TOTAL INVESTMENT INCOME	<u>500,675</u>	<u>544,360</u>	<u>464,601</u>	<u>458,506</u>
Plus:				
Realized Gains	205,018	53,403	35,731	40,137
Unrealized Gains	2,193,427	326,735	101,695	626,396
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>116,736</u>	<u>110,326</u>	<u>111,030</u>	<u>98,891</u>
Sub Total	<u>2,515,181</u>	<u>490,464</u>	<u>248,456</u>	<u>765,424</u>
Less:				
Paid Accrued Interest on Fixed Income Securities	(21,856)	(45,963)	(5,289)	(31,855)
Realized Loss	(105,285)	(448,012)	(306,992)	(409,551)
Unrealized Loss	0	(683,623)	(411,885)	(29,401)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(110,326)</u>	<u>(111,030)</u>	<u>(98,891)</u>	<u>(90,567)</u>
Sub Total	<u>(237,467)</u>	<u>(1,288,628)</u>	<u>(823,057)</u>	<u>(561,374)</u>
NET INVESTMENT INCOME	<u>2,778,389</u>	<u>(253,803)</u>	<u>(110,000)</u>	<u>662,555</u>
Income Required:				
Annuity Savings Fund	41,697	56,651	77,266	72,452
Annuity Reserve Fund	40,088	35,656	32,484	31,267
Military Service Fund	6	8	11	12
Expense Fund	<u>104,261</u>	<u>86,965</u>	<u>79,092</u>	<u>80,379</u>
TOTAL INCOME REQUIRED	<u>186,053</u>	<u>179,280</u>	<u>188,853</u>	<u>184,109</u>
Net Investment Income	<u>2,778,389</u>	<u>(253,803)</u>	<u>(110,000)</u>	<u>662,555</u>
Less: Total Income Required	<u>186,053</u>	<u>179,280</u>	<u>188,853</u>	<u>184,109</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$2,592,336</u>	<u>(\$433,083)</u>	<u>(\$298,853)</u>	<u>\$478,447</u>

Maynard Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$403,205	2.33%	100
Short Term		274,047	1.58%	100
Fixed Income		8,382,555	48.42%	40 - 80
Equities		8,251,875	47.67%	40
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		0	0.00%	
Pooled International Equity Funds		0	0.00%	
Pooled Global Equity Funds		0	0.00%	
Pooled Domestic Fixed Income Funds		0	0.00%	
Pooled International Fixed Income Funds		0	0.00%	
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		0	0.00%	
Pooled Real Estate Funds		0	0.00%	
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		0	0.00%	100
GRAND TOTALS	\$0	\$17,311,682	100.00%	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2003**, the rate of return for the investments of the **Maynard** Retirement System was 19.60%. For the five-year period ending December 31, **2003**, the rate of return for the investments of the **Maynard** Retirement System averaged 5.41%. For the 19-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Maynard** Retirement System was 9.50%.

Maynard Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The **Maynard** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

September 8, 1994

20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities, which shall not exceed 10% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

September 14, 1995

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds and Eurobonds which shall be limited to 12% of the total fixed income portfolio valued at market.

October 8, 1997

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities, which shall not exceed 10% of the portfolio valued at market.

October 16, 1997

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds and Eurobonds which shall be limited to 20% of the total fixed income portfolio valued at market.

Maynard Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Maynard** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Maynard Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Maynard Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Maynard** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 12, 1984

As of April 1, 1979, employees shall become members of the Town of Maynard Contributory Retirement System only when they work at least twenty-five (25) hours per week and a minimum of forty (40) weeks per year. Part-time service will be prorated on the basis of annual dollar earnings as compared with the dollar earnings of a comparable full time position.

Maynard Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Kenneth R. DeMars

Appointed Member: Thomas A. Natoli Term Expires: 01/01/06

Elected Member: Robert W. Larkin Term Expires: 04/01/06

Elected Member: Gerard P. Flood Term Expires: 04/01/06

Appointed Member: None Term Expires:

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$500,000
Elected Member:)	Hanover Insurance
Appointed Member:)	
Staff Employee:)	

Maynard Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PERAC** as of **January 1, 2001**.

The actuarial liability for active members was	\$11,835,133
The actuarial liability for inactive and retired members was	8,594,622
The total actuarial liability was	20,429,755
System assets as of that date were	14,295,580
The unfunded actuarial liability was	<u>\$6,134,175</u>
The ratio of system's assets to total actuarial liability was	70.0%
As of that date the total covered employee payroll was	\$5,835,718

The normal cost for employees on that date was 7.98% of payroll

The normal cost for the employer was 9.75% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2001	\$14,295,580	\$20,429,755	\$6,134,175	70.0%	\$5,835,718	105.11%
1/1/1996	7,576,482	14,560,297	6,983,815	52.0%	3,916,645	178.31%

Maynard Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	4	4	3	3	2	2	1	3	4	4
Ordinary Disability	6	6	0	0	0	0	0	1	0	0
Accidental Disability	0	0	1	0	0	0	1	0	0	0
Total Retirements	10	10	4	3	2	2	2	4	4	4
Total Retirees, Beneficiaries and Survivors	82	82	84	83	85	82	80	79	83	81
Total Active Members	142	148	142	171	173	181	195	204	197	180
Pension Payments										
Superannuation	\$482,385	\$483,164	\$493,442	\$535,110	\$585,744	\$598,818	\$663,385	\$706,073	\$761,276	\$855,697
Survivor/Beneficiary Payments	42,607	43,302	38,707	36,261	35,937	36,372	38,286	35,709	36,951	37,923
Ordinary Disability	37,635	38,150	38,322	39,186	39,622	40,059	42,601	66,217	67,108	68,797
Accidental Disability	140,557	141,367	180,748	163,145	140,690	141,365	200,207	145,288	146,402	148,562
Other	<u>69,832</u>	<u>66,343</u>	<u>64,563</u>	<u>47,195</u>	<u>36,333</u>	<u>36,524</u>	<u>39,202</u>	<u>63,713</u>	<u>74,805</u>	<u>80,249</u>
Total Payments for Year	<u>\$773,016</u>	<u>\$772,326</u>	<u>\$815,782</u>	<u>\$820,897</u>	<u>\$838,326</u>	<u>\$853,138</u>	<u>\$983,681</u>	<u>\$1,016,999</u>	<u>\$1,086,543</u>	<u>\$1,191,228</u>